A Work Project, presented as part of the requirements for the Award of a Master's degree in Finance from the NOVA School of Business and Economics

PRIVATE EQUITY CHALLENGE –
ASSESSMENT OF CALAVO GROWERS' SUITABILITY AS AN LBO TARGET

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Abstract:
The following work project was developed by a group of Masters in Finance students and consists on the development of an Investment Committee Paper on Calavo Growers, an American fresh fruit and healthy on-the-go fresh food items company, in an academical context. The company operates through three segments: Fresh Products – which deals with fresh fruit, mostly avocados; Calavo Foods – that transforms avocados into processed products, such as guacamole; and RFG – which handles a portfolio of fresh and healthy foods, including fresh-cut fruits. In this segment, the value creation strategy and business plan are presented, which intend to create value for investors during a 7-year time horizon through organic and inorganic growth, consisting of revenue growth, operational improvements, add-on acquisitions and international expansion. This plan is supported by extensive research on the company and on the markets in which it operates.

Key words:
Avocado, Calavo Foods, Calavo Growers, China, Fresh Packed Food, Fresh Products, Guacamole, Inorganic Growth, Internationalization, LBO, Organic Growth, Private Equity, RFG, Syros, Trops

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I. Value Creation Strategy and Business Plan

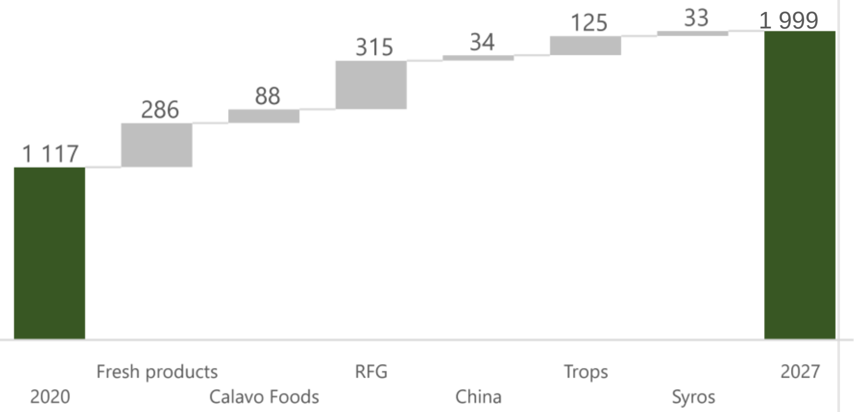
II. Private Equity in the Fresh Produce Industry

III. Reference List

Inorganic projects will represent 10% of total sales in 2027, with the Fresh products segment having reduced nine percentage points, RFG one percentage point and Calavo Foods remaining constant throughout.

Net Sales	Avg. 2016-19	LTM 2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	CAGR
Fresh products	618.9	609.3	636.3	673.4	712.9	754.6	798.9	845.8	895.4	5.7%
Calavo Foods	90.8	77.0	96.1	105.2	115.2	126.1	138.0	151.1	165.4	11.6%
RFG	486.1	430.9	494.8	539.3	579.7	617.4	657.5	700.3	745.8	8.2%
China		—	—	5.8	8.7	12.6	17.6	24.6	34.4	42.9%
Trops		—	—	54.3	67.9	82.8	97.8	111.4	124.8	18.1%
Syros		—	—	—	19.9	22.7	25.9	29.2	32.7	13.2%
Total Net Sales	1 196.8	1 118.1	1 228.2	1 379.0	1 505.2	1 617.2	1 736.6	1 863.4	1 999.6	8.7%

Revenue Waterfall



Fresh products

The revenue growth in this sector will be in line with how Calavo has performed, with a **special focus on increasing growers network** as demand continues to exceed supply. The **5.7% CAGR meets the market predictions**, as it is difficult to outpace it as growers have established partnerships with their own wholesalers.

China

Based on a peer analysis, it is expected that China will generate $5.8M in sales in its first year of operations. Thereafter, the **market's superior expansion and the aggressive expansion strategy will allow sales to grow at a 43% CAGR**. To accomplish this, a **ripening & packing facility and a partnership with a local distributor will be established.**

Calavo Foods

Strong US market growth and Calavo's expertise in the avocado market are the two key factors. Moreover, **deals with fast food chains and improved brand awareness will boost own labelled sales.**

Trops

With European countries reaching levels of growth between 15% and 20%, **Calavo's know-how and dimension will provide a boost in Trops' revenues leading to a CAGR of 18%.**

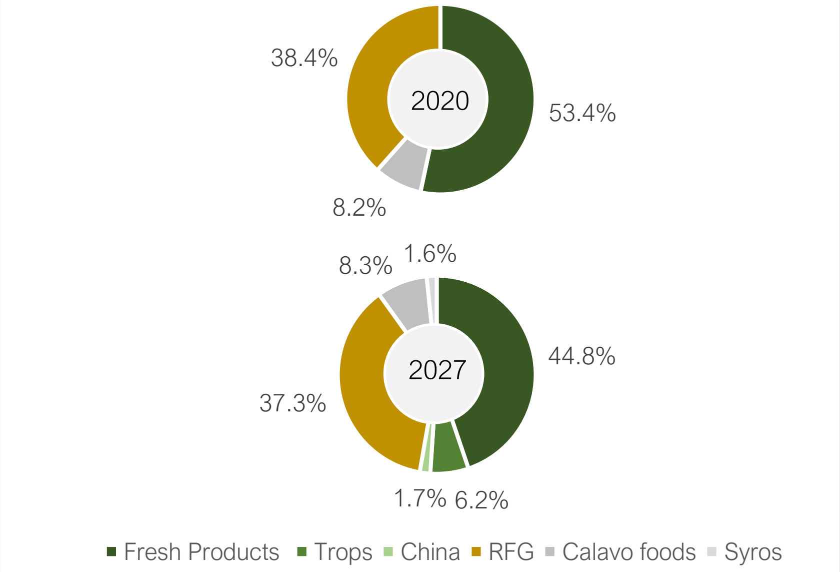
RFG

Similarly to the fresh foods segment, **RFG will grow in line with the market's expected value,** with a strategy based on **new partnerships** with retailers and on the **expansion to new facilities.**

Syros

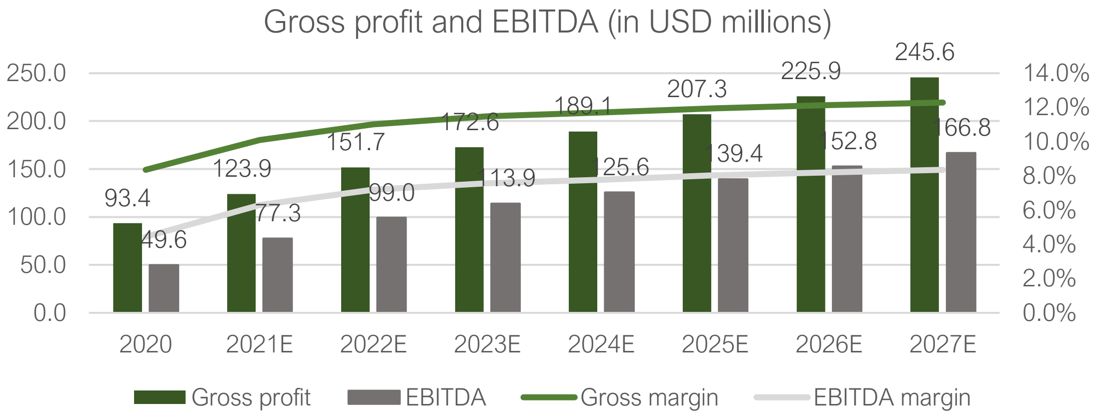
As with Trops, avocado related products present high levels of growth. With **Calavo´s influence, it will be easier to expand the company's presence in Europe to the highest growing countries.**

Revenue breakdown



Consolidated gross and EBITDA margin will be improved. with the biggest increase occurring in 2021 in a response to 2020's atypical figures. Thereafter, the increases tend to be stable, reaching an EBITDA margin of 8.9% in 2027.

Gross margin	Avg. 2016-19	LTM 2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Fresh products	11.7%	8.4%	9.6%	10.5%	10.9%	10.9%	10.9%	10.9%	10.9%
Calavo foods	26.3%	26.5%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%
RFG	6.7%	5.1%	6.6%	7.6%	8.1%	8.4%	8.6%	8.7%	8.7%
China	—	—	—	27.2%	26.3%	25.6%	25.0%	24.1%	22.9%
Trops	—	—	—	10.7%	11.1%	11.5%	11.9%	12.3%	12.7%
Syros	—	—	—	—	11.8%	14.8%	17.8%	20.8%	23.8%



Fresh products

Economies of scale, hazel bag and efficient irrigation systems are expected to reduce unit avocado cost by $0.04 from 2020 to 2023, **increasing the gross margin by 2.5 p.p.**.

Calavo Foods

There are no changes predicted for the Calavo Foods segment. The 2021 margin increase only occurs since 2020 was an atypical year due to COVID-19

RFG

RFG will improve its gross margin by 2.1 p.p. due to efficiencies gains in newer facilities and other measures taken to update the older ones.

China

The expansion project to **China will have a negatively sloped curve for the gross margin as wages are expected to grow at a 9% CAGR**. Hence, the margin will decrease by 4.3 p.p. during the six year period.

Trops

Trops's margin increases by 2 p.p. throughout the six years from **synergy gains** following the acquisition, **as Calavo will pass its know-how to Trops.**

Syros

Syros will suffer a gross margin increase of 12%. This increase occurs due to the expected **convergency towards Calavo Foods' values** (i.e. 31%).

SG&A

The SG&A costs will remain virtually constant in percentage of sales, with a tiny increase of 0.1% in 2023, 2024 and 2025 due to a bigger investment in the Chinese market during those years. **The 5.1% figure comes from the average from past years, which are very similar.**

Gross profit

The consolidated **gross margin increases by 4 p.p.**, As expected, China's decreasing margin is compensated by all other margins that present an upward movement. We can also observe that **between 2020 and 2021 there is a bigger impact, which is explained by the lower than usual margins in 2020 due to the COVID-19 crisis.**

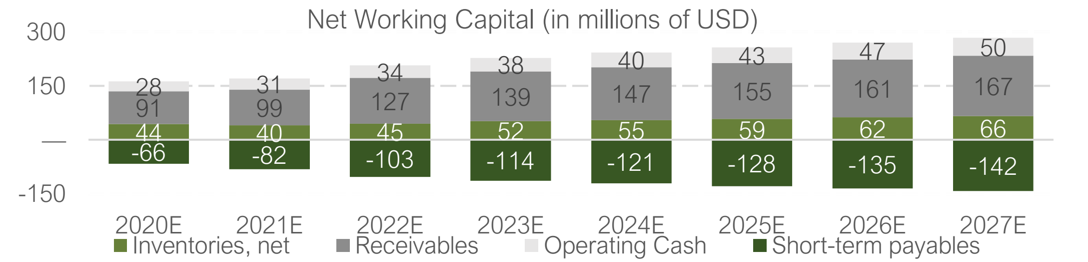
EBITDA

SG&A costs do not vary much during the period, leading the **EBITDA margin to move according to the gross margin**. Hence, it increases by 4 p.p., **passing from 4.4% to 8.1%.** In absolute terms, with a starting value of 50M and a final value of 154M**, has a total increase of 210%.**

Sources: Team Assessment

CCC will not significantly change, leading the NWC to increase as a mere support for sales growth. CAPEX values present a stable pattern other than in 2022 and 2023, when the acquisitions will be made.

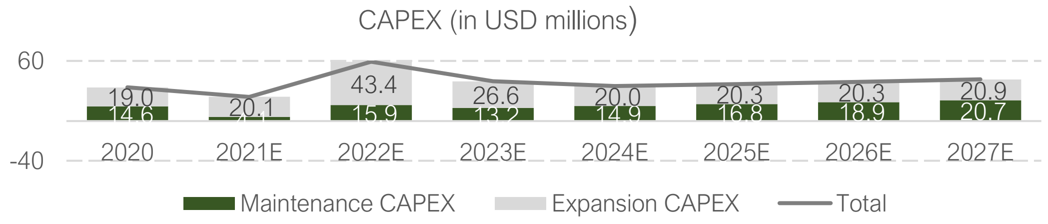
Forecast Net Working Capital (in USD millions)



in days	Avg. 2016-19	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
(+) AHP	13	16	13	13	14	14	14	14	14
(+) ACP	30	30	30	34	34	33	33	32	31
(-) APP	28	24	27	31	31	31	31	30	30
CCC	14	22	16	16	17	16	16	15	15

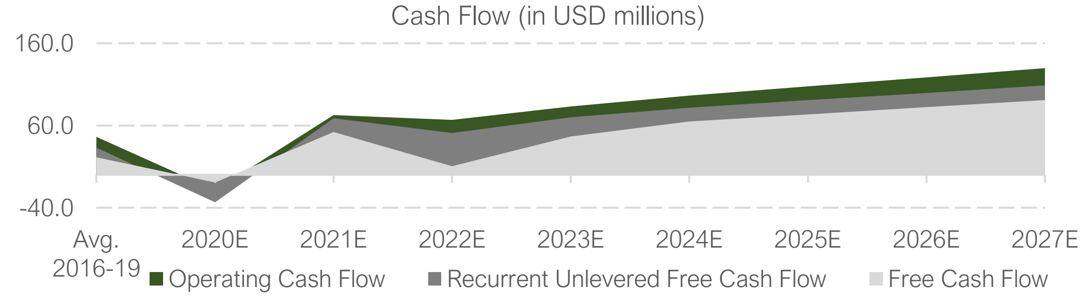
- **NWC is expected to increase in order to support the normal growth of the company.**
- The **AHP** should stabilize at **14 days**, improving in 2021 as the RFG registered unusual values in 2020. Despite the improvements in the acquired companies, the overall AHP should not change as it **considers the days necessary to ripen the fruit.**
- **ACP** will increase in 2022 with Trops' acquisition, converging thereafter back to the **31 days**, which are not **expected to change due to the size and bargaining power of its retail clients.**
- **APP** will improve at first due to 2020's unusual values and minor changes with the acquisitions, converging afterwards to that of the organic segments. This metric will get worse at Trops and Syros **to solidify relationships with suppliers and ensuring high product quality.**

Forecast Capex (in USD millions)



- **Expansion CAPEX** is expected to reach **$20.9M in 2027**. The most significant ones are the **investment in equipment to enter the Chinese market in 2021, Trops acquisition in 2022 and Syros acquisitions in 2023.**
- **Maintenance CAPEX is in line with overall revenues growth**, reaching **$20.7M in 2027**. The low value in 2021 is explained by the lower Fixed assets over net sales ratio compared to 2020.

Forecast Cash Flow (in USD millions)



- **Operating CF** will increase due to a better NOPLAT and a lower NWCR growth reaching **$130M in 2027**. The 2022 decrease is explained by the **higher NWCR growth, which comes from Trops's acquisition, as it has a worse CCC than Calavo's.**
- **Recurrent UFCF** is forecasted to increase and reach **$109M**, considering the relatively small Maintenance CAPEX. The **decline in 2022 is explained by the decrease in the Operating CF and by the substantial increase in maintenance CAPEX** due to the assumptions used
- **Free CF** is expected to follow the same pattern reaching **$91M in 2027**. The **slump in 2022** is due to expansion capex expenditures related to the **acquisition of Trops.**

Calavo

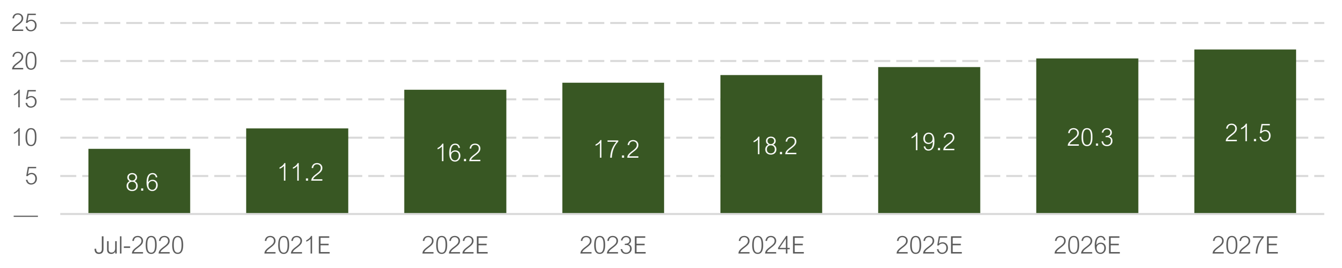
An expanding avocado market that should not be much affected by COVID-19 going forwards, coupled with efficiency gains, will improve significantly the cash generation capacity of the segment.

in millions of USD	Avg. 2016-19	LTM 2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	CAGR 2020-27
Net sales 1	573.0	609.3	636.3	673.4	712.9	754.6	798.9	845.8	895.4	5.9%
Y-o-y growth	*5.0%*	*-1.6%*	*4.4%*	*5.8%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	
Gross profit 2	67.7	51.0	61.4	70.6	77.6	82.2	87.1	92.3	97.7	9.7%
Gross margin	*11.7%*	*8.4%*	*9.6%*	*10.5%*	*10.9%*	*10.9%*	*10.9%*	*10.9%*	*10.9%*	
EBITDA	45.3	27.2	38.1	45.9	51.5	54.6	57.8	61.2	64.9	13.2%
EBITDA margin	*7.8%*	*4.5%*	*6.0%*	*6.8%*	*7.2%*	*7.2%*	*7.2%*	*7.2%*	*7.2%*	

in millions of USD	Avg. 2016-19	LTM 2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	CAGR 2020-27
NOPLAT	27.7	16.2	22.6	28.4	32.4	34.3	36.4	38.5	40.8	14.2%
(+) D&A	6.8	8.4	9.4	10.0	10.5	11.2	11.8	12.5	13.2	6.6%
(+) NWCR 3	-0.4	-2.8	1.4	-3.1	-3.2	-3.3	-3.5	-3.7	-3.9	4.8%
(+) Mnt. CAPEX	-11.7	-8.6	-6.8	-10.1	-10.7	-11.3	-11.9	-12.6	-13.3	6.6%
Recurrent FCF	22.5	13.2	26.7	25.1	29.0	30.9	32.7	34.7	36.7	15.7%
(+) Exp. CAPEX	-4.6	—	-4.5	-6.1	-6.5	-6.9	-7.3	-7.7	-8.2	N/A
Unl. FCF	17.9	13.2	22.2	19.0	22.5	24.0	25.4	26.9	28.6	11.6%

	Avg. 2016-19	LTM 2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Asset Turnover	4.2x	3.9x	4.0x	4.0x	4.0x	4.0x	4.0x	4.0x	4.0x
ROIC	19.9%	10.2%	14.3%	16.9%	18.2%	18.3%	18.3%	18.3%	18.3%
Trailing ROIC	22.7%	10.5%	14.3%	17.9%	19.3%	19.3%	19.3%	19.4%	19.4%
Trailing RONIC 4		-410.6%	174.9%	1275.8%	42.6%	19.6%	19.8%	19.8%	19.8%

CAPEX in Fresh Products (in USD millions) 5



1
- Net sales growth will be mainly driven by Avocado sales. **These should grow at an average 6.0% p.a.,** the global market value. The prices have been driven mostly by the agricultural year, without a clear upward or downward movement. Hence, prices were assumed to remain equal to 2020's, which is neither a positive nor a negative extreme;
- Even though COVID-19 will still affect the world for the foreseeable future, **avocado consumption in the US is expected to rise in 2021;**
- **Tomato sales will grow at 3.0% CAGR throughout.** Cartons sold will grow at 3.2% p.a., the expected increase of global tomato production. Prices were assumed to rise at 2.0% p.a., the US expected inflation rate;
- In 2021, **the number of cartons sold will increase 5%** as the economy will recover from the effects of COVID-19. To offset this, the average carton price was set to be equal to the average price of 2016-2020.

2
- Avocado COGS were forecasted based on the average avocado unit cost. **Economies of scale and efficiency gains** in water consumption and waste management will make these **improve throughout;**
- Hence, the **unit cost is expected to decrease from $1.32 in 2020 to $1.29 in 2027**, representing an average annual change of 0.4%.

3
- **NWCR** are driven by the AHP, ACP and APP of 2016-2020. **In 2020, such drivers were higher as COVID-19 led to a worse cash management.** However, a more efficient management in 2021 led to a positive CF. Afterwards, its evolution is related to Sales and COGS.

4
- The trailing RONIC for 2022 amounts to more than 1200% as the Invested Capital of 2021 is only marginally larger than 2020's.

5
- Net fixed assets were forecasted based on sales. Since the Net fixed assets/Sales ratio of 2020 was larger than the average used for forecasting. As 2021's CAPEX still depends on 2020, the variation to 2022 has higher figures than the pattern from then onwards.

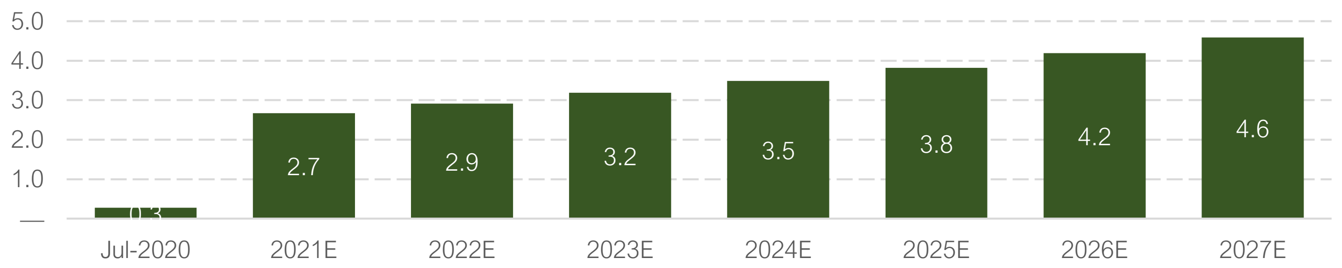
The high-growth guacamole market makes Calavo Foods a more relevant component of the company, which will improve the overall returns provided to Calavo.

in millions of USD	Avg. 2016-19	LTM 2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	CAGR 2020-27
Net sales 1	79.2	77.0	96.1	105.2	115.2	126.1	138.0	151.1	165.4	11.6%
Y-o-y growth	*12.9%*	*-15.2%*	*24.9%*	*9.4%*	*9.5%*	*9.5%*	*9.5%*	*9.5%*	*9.5%*	
Gross profit 2	20.6	20.4	29.8	32.6	35.7	39.1	42.8	46.8	51.3	14.1%
Gross margin	*26.3%*	*26.5%*	*31.0%*	*31.0%*	*31.0%*	*31.0%*	*31.0%*	*31.0%*	*31.0%*	
EBITDA	17.4	17.4	26.2	28.7	31.4	34.4	37.6	41.2	45.1	14.6%
EBITDA margin	*22.3%*	*22.6%*	*27.3%*	*27.3%*	*27.3%*	*27.3%*	*27.3%*	*27.3%*	*27.3%*	

in millions of USD	Avg. 2016-19	LTM 2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	CAGR 2020-27
NOPLAT	11.9	14.2	19.6	21.5	23.5	25.7	28.2	30.8	33.8	13.2%
(+) D&A	0.9	1.1	1.4	1.5	1.6	1.8	2.0	2.2	2.4	11.6%
(+) NWCR 3	-0.2	-1.0	-0.6	-0.4	-0.5	-0.5	-0.6	-0.6	-0.7	-6.0%
(+) Mnt. CAPEX	-1.2	-0.3	0.3	-1.5	-1.6	-1.8	-2.0	-2.1	-2.4	35.5%
Recurrent FCF	11.5	14.0	20.7	21.1	23.1	25.2	27.6	30.3	33.1	13.1%
(+) Exp. CAPEX 4	-1.0	—	-3.0	-1.4	-1.5	-1.7	-1.9	-2.0	-2.2	N/A
Unl. FCF	10.4	14.0	17.7	19.7	21.5	23.5	25.8	28.2	30.9	12.0%

	Avg. 2016-19	LTM 2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Asset Turnover	5.2x	4.5x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x
ROIC	78.6%	82.4%	102.8%	102.7%	102.6%	102.5%	102.4%	102.4%	102.3%
Trailing ROIC	79.3%	80.8%	114.2%	112.6%	112.4%	112.3%	112.2%	112.2%	112.1%
Trailing RONIC 5		-448.6%	-1594.0%	97.8%	111.2%	111.3%	111.3%	111.3%	111.3%

CAPEX in Calavo Foods (in USD millions) 4



1
- Net sales growth are essentially driven by sales of **Prepared avocado products. These will grow at 9.7% p.a. from 2021 onwards**, in line with the projected growth of the US guacamole market;
- Pounds sold will grow throughout the investment period at a CAGR 7.5%. The price per pound was assumed to grow at the US expected inflation rate;
- **Salsa products grow at a CAGR of 5.1%**, being only an increasingly more residual part of the Calavo Foods segment.

2
- The gross margin of the entire segment was assumed to be the individual margin of both prepared avocado and salsa products;
- **The gross margin was set to be the average of the historic years** (without considering the 2017 outlier, value unlikely to occur again).
- EBITDA margin improvements come from the better gross margin.

3
- Unlike with Fresh products, the NWCR drivers were not as different from the values of the previous years. As such, the changes in NWCR are much more stable throughout the investment period.

4
- Following the same rationale used with Fresh products, the Net fixed assets were based on sales values. **The large difference between the CAPEX values for 2020 and the remaining years lies with 2020 being a clear outlier: as Net fixed assets fell in that year, the CAPEX was much smaller.** Afterwards, it returns to more common values.
- Large y-o-y change in sales led to higher 2021 Expansion CAPEX.

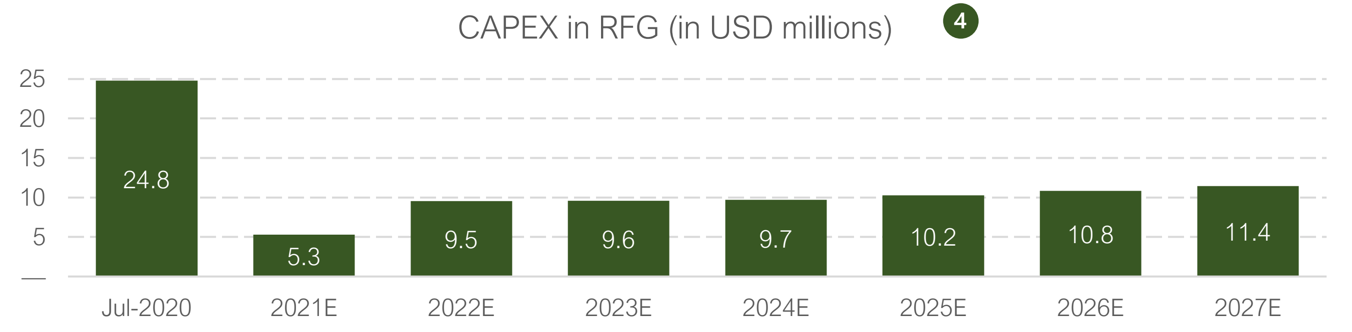
5
- The misleading and outstanding negative Trailing RONIC value results from the Invested Capital of 2020 being smaller than the value of the previous year. Furthermore, the change in NOPLAT from 2020 to 2021 is substantial, further contributing to this result.

Immediate operational efficiency gains turn RFG back into a profitable segment and a value creator for Calavo through a positive, more stable cash flow generation.

in millions of USD	Avg. 2016-19	LTM 2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	CAGR 2020-27
Net sales 1	421.7	430.9	494.8	539.3	579.7	617.4	657.5	700.3	745.8	7.1%
Y-o-y growth	*13.7%*	*-11.4%*	*14.8%*	*9.0%*	*7.5%*	*6.5%*	*6.5%*	*6.5%*	*6.5%*	
Gross profit 2	27.7	22.0	32.7	41.1	47.1	51.7	56.7	61.1	65.1	16.8%
Gross margin	*6.7%*	*5.1%*	*6.6%*	*7.6%*	*8.1%*	*8.4%*	*8.6%*	*8.7%*	*8.7%*	
EBITDA	10.0	5.0	13.0	19.5	23.8	26.8	30.1	32.6	34.6	31.9%
EBITDA margin	*2.5%*	*1.2%*	*2.6%*	*3.6%*	*4.1%*	*4.3%*	*4.6%*	*4.7%*	*4.6%*	

in millions of USD	Avg. 2016-19	LTM 2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	CAGR 2020-27
NOPLAT	4.1	-0.8	5.7	10.5	13.6	15.7	18.0	19.8	21.1	N/A
(+) D&A	3.8	5.8	5.8	6.2	6.5	6.9	7.2	7.6	8.0	4.7%
(+) NWCR 3	-1.6	-15.9	7.4	-3.3	-2.9	-2.7	-2.9	-3.0	-3.2	-20.5%
(+) Mnt. CAPEX 4	-2.6	-5.8	2.3	-4.2	-4.8	-5.2	-5.5	-5.7	-6.0	0.6%
Recurrent FCF	3.9	-16.7	21.2	9.2	12.4	14.7	16.9	18.6	19.8	N/A
(+) Exp. CAPEX	-4.5	-19.0	-7.6	-5.3	-4.8	-4.5	-4.8	-5.1	-5.4	-0.2
Unl. FCF	-0.7	-35.7	13.6	3.9	7.6	10.2	12.2	13.5	14.4	N/A

	Avg. 2016-19	LTM 2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Asset Turnover	5.9x	3.8x	4.7x	4.8x	4.9x	5.0x	5.1x	5.2x	5.3x
ROIC	6.1%	-0.8%	5.5%	9.4%	11.6%	12.8%	14.0%	14.6%	14.9%
Trailing ROIC	5.3%	-1.1%	5.1%	10.0%	12.2%	13.4%	14.7%	15.4%	15.6%
Trailing RONIC 5		-20.6%	18.7%	-60.5%	46.8%	35.4%	42.1%	29.3%	20.6%



1
- **Net sales will grow slightly above the global refrigerated fresh packaged food market CAGR of 6.5% (i.e. 7.1%) after 2021;**
- Such value will be enough for 2021's figures to surpass pre-COVID ones, as consumer preferences for these products did not change significantly as a consequence of COVID.

2
- **The gross margin will rise over the investment period as efficiency gains related to the previously-made ramp-ups take effect;**
- The 2021 gross margin is projected to increase by 1.5 percentage points versus the previous year's as the impacts of COVID-19 and of the closure of the Midwest packing partner become residual;
- Afterwards, such margin was assumed to improve by marginally lower values as production approaches scale.

3
- As with the previous segments, NWCR grow in accordance with the AHP, ACP and APP. As the corresponding values of 2020 are worse than the average used for forecasting, the NWCR in 2021 fall considerably. This contributes to the much higher Recurrent FCF of that year.

4
- Once again, the Net fixed assets are assumed to be driven by the net sales of the segment. **The much smaller 2021 CAPEX results from the ratio of fixed assets over sales of LTM2020 being larger than the average used in forecasting.** Thus, the value of the Net fixed assets actually decreases from 2020 and the CAPEX is small.
- This also justifies the value of Maintenance CAPEX for 2021, as the computed Expansion CAPEX was larger than the total CAPEX.

5
- As in other instances, the negative Trailing RONIC of 2022 is misleading. Since there was less capital invested in RFG in 2021 than in 2020, the RONIC assumes a negative value.

A CAGR of 42.9% and a healthy EBITDA margin helps the expansion to China to achieve quite good values in a short period of time.

In millions of USD	2021E	2022E	2023E	2024E	2025E	2026E	2027E	CAGR
Revenues 1	—	5.8	8.7	12.6	17.6	24.6	34.4	42.9%
Y-o-y growth			*50.0%*	*45.0%*	*40.0%*	*40.0%*	*40.0%*	
Gross profit 2	—	1.6	2.3	3.2	4.4	5.9	7.9	38.1%
Gross margin		*27.2%*	*26.3%*	*25.6%*	*25.0%*	*24.1%*	*22.9%*	
SG&A 3	—	-0.6	-0.9	-1.3	-0.9	-1.3	-1.8	24.4%
as % of Revenues		*-10.3%*	*-10.3%*	*-10.3%*	*-5.1%*	*-5.1%*	*-5.1%*	
EBITDA	—	1.5	1.9	2.4	4.0	5.2	6.6	35.0%
EBITDA margin		*25.7%*	*21.9%*	*19.3%*	*22.7%*	*21.0%*	*19.3%*	
D&A 4	—	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	0.0%
as % of Revenues		*-8.7%*	*-5.8%*	*-4.0%*	*-2.9%*	*-2.0%*	*-1.5%*	
Interest expense 4	—	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-11.6%
as % of Revenues		*-2.9%*	*-1.8%*	*-1.1%*	*-0.7%*	*-0.4%*	*-0.3%*	
Net income	—	0.6	0.9	1.3	2.5	3.4	4.5	49.4%
Net income margin		*10.5%*	*10.7%*	*10.7%*	*14.4%*	*13.9%*	*13.2%*	

In millions of USD	2021E	2022E	2023E	2024E	2025E	2026E	2027E	CAGR
NOPLAT	—	0.7	1.0	1.4	2.6	3.5	4.6	44.4%
(+) D&A	—	0.5	0.5	0.5	0.5	0.5	0.5	0.0%
(+) NWCR 5	—	-0.7	-0.3	-0.4	-0.6	-0.8	-1.1	11.3%
(+) Maint. CAPEX	—	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	11.3%
Recurrent FCF	—	0.6	1.2	1.5	2.5	3.2	4.0	47.3%
(+) Exp. CAPEX	-5.0	—	—	—	—	—	—	0.0%
Unlevered FCF	-5.0	0.5	1.2	1.5	2.5	3.1	3.9	49.1%

1
- **Total revenue is expected to have a CAGR of 42.9% throughout the six year period, in line with the predicted market growth;**
- As the growth of avocados sold will be enough to match demand, **there will be no price changes throughout the investment period;**
- It is expected that any COVID-19 impact will end by, at the latest, 2022. As such, the **China operation will likely not be affected by the pandemic.**

2
- To obtain the gross profit in the Chinese market the U.S. gross margin was applied, adjusting for the differences in costs between the two countries;
- The major differences are in workers salaries, shipping costs, import tariffs and fuel costs. Ultimately, the **Chinese gross margin is twice the U.S. one;**
- **Wages are the largest contributor** to this as in the U.S. these are on average 4 times higher. The trend is for this disparity to decrease in the future, as salaries are **predicted to rise 9% p.a. in China versus only 2% in the U.S.**

3
- EBITDA figures are driven by the gross profit and **SG&A costs**, with the latter being **10.3% of sales in the first three years, shifting thereafter to 5.1%;**
- This occurs due to an **initial aggressive strategy to raise brand awareness in China**, through marketing campaigns, **and to pay an experienced management team** to properly develop the company during the first years. In the following years it will stabilize within the same range as in Calavo's Fresh food segment.

4
- Depreciation expenses are related with the leasing of all necessary equipment for the facility. **As only one set of equipment will be leased throughout, the depreciation value remains the same;**
- Regarding the interest expense, it is related to the interest on the financing lease asked to purchase the equipment, therefore decreasing throughout time as the lease is repaid.

5
- NWCR grows based on the **AHP, ACP and APP, which were assumed to be the same of Fresh products'. The only difference is with the AHP, which is 15 days longer to account for the time it takes to ship avocados from Mexico.**
- **As the large majority of fixed assets are funded by leases, the actual CAPEX for Calavo will be low.** The expansion CAPEX for 2021 will be equal to the value of the leases and correspond to the total CAPEX. The maintenance CAPEX is assumed to equal to the total CAPEX from 2022 onwards.

High market growth, coupled with large room for improvements in NWCR , ensure that Trops is able to generate cash and returns for Calavo investors.

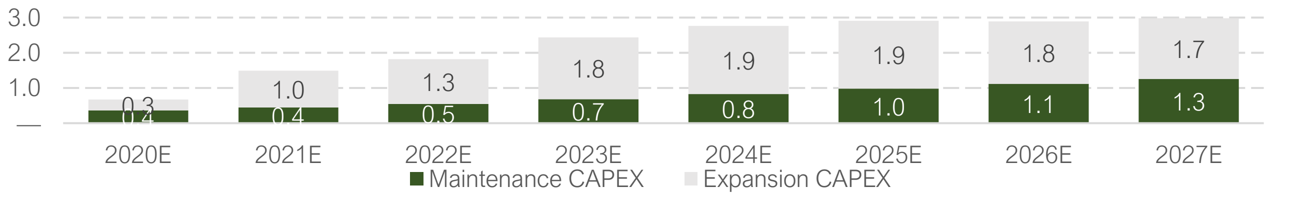
In millions of USD	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	CAGR*
Sales 1	34.0	36.4	44.5	54.3	67.9	82.8	97.8	111.4	124.8	18.8%
y-o-y growth in %	*24.5%*	*7.0%*	*22.1%*	*22.1%*	*25.0%*	*22.0%*	*18.0%*	*14.0%*	*12.0%*	
Gross profit 2	3.6	2.9	4.8	5.8	7.5	9.5	11.6	13.7	15.9	22.2%
Gross margin	*10.7%*	*8.0%*	*10.7%*	*10.7%*	*11.1%*	*11.5%*	*11.9%*	*12.3%*	*12.7%*	
SG&A 3	-1.0	-1.0	-1.3	-2.3	-3.5	-4.3	-5.0	-5.7	-6.4	31.2%
as % of sales	*-2.8%*	*-2.8%*	*-2.8%*	*-4.3%*	*-5.1%*	*-5.1%*	*-5.1%*	*-5.1%*	*-5.1%*	
EBITDA	2.7	1.9	3.5	3.5	4.1	5.3	6.6	8.0	9.4	18.0%
EBITDA margin	*7.9%*	*5.2%*	*7.9%*	*6.4%*	*6.0%*	*6.4%*	*6.8%*	*7.2%*	*7.6%*	

** - for period 2021-2027*

In millions of USD	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	CAGR*
NOPLAT	1.8	1.2	2.4	2.3	2.5	3.3	4.2	5.2	6.1	16.9%
(+) Depreciation	0.3	0.4	0.4	0.5	0.7	0.8	1.0	1.1	1.3	18.8%
(+) Δ NWCR 4	-0.7	-0.4	-1.4	-0.1	-0.4	0.1	0.9	1.6	2.3	N/A
(+) Maint. CAPEX	-3.9	-0.4	-0.4	-0.5	-0.7	-0.8	-1.0	-1.1	-1.3	18.8%
Recurrent FCF	-2.5	0.9	1.0	2.2	2.2	3.5	5.1	6.8	8.4	42.2%
(+) Exp. CAPEX	-0.9	-0.3	-1.0	-1.3	-1.8	-1.9	-1.9	-1.8	-1.7	8.8%
Unlevered FCF	-3.3	0.5	-0.0	0.9	0.4	1.5	3.1	5.0	6.7	N/A

	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
CCC	105	105	105	95	87	79	71	63	55
Asset turnover	1.6x	1.6x	1.6x	1.8x	2.0x	2.2x	2.4x	2.7x	3.1x
ROE	24.5%	13.5%	21.2%	14.7%	14.7%	16.2%	17.0%	17.2%	17.0%
ROIC	33.9%	11.0%	20.9%	16.3%	17.2%	19.8%	22.7%	26.2%	30.9%
RONIC 7	17.2%	-12.7%	167.4%	-4.4%	25.9%	38.1%	50.0%	85.8%	625.9%

CAPEX (in USD millions)



1
- **Sales are expected to increase at a CAGR of 18.8%** from 2021 to 2027, driven by the increasing consumption of avocados in Europe;
- Calavo's impact on the sales of Trops will only be felt one year after the acquisition, as only by then will the topline improvements be realized. This implies a y-o-y growth of 25.0%. Afterwards, the annual percentage growth will decrease as the market starts to mature.

2
- **Expected to increase at a CAGR of 22.2% from 2021 to 2027** as Trops' gross margin increases over time. This improvement will take place as Calavo's best practices are implemented in the company.

3
- **SG&A as percentage of sales values increase after the acquisition to reflect the added expenditures with marketing campaigns** to raise brand awareness.

4
- **NWCR are expected to grow over the investment period due to improvements in components of the CCC, as they converge to Calavo's values;**
- ACP improve significantly due to the increase in efficiency and in the bargaining power obtained in inventory management and in negotiation with debtors. However, APP decreases to improve relationships with suppliers/growers.

5
- Both maintenance and expansion CAPEX are expected to be larger as the fixed assets will have to grow to support the rising level of sales.

6
- **Asset turnover is expected to increase following the acquisition due to a more efficient use of the firm's assets to generate revenues.**

7
- The increasing RONIC figures following the acquisition are explained by the better asset turnover. As the CCC improves and the NWCR decrease over time, the change in Invested Capital is increasingly smaller.

Sources: Team Assessment

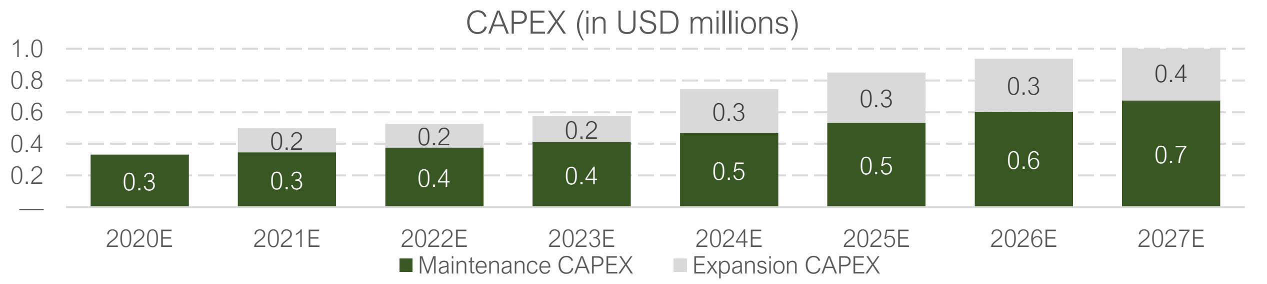
Strong cash flow generation and large upside potential margins validate Syros' acquisition rationale.

in millions of USD	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	CAGR*
Sales 1	15.2	16.8	18.3	19.9	22.7	25.9	29.2	32.7	12.4%
y-o-y growth in %	-10.0%	10.0%	9.0%	9.0%	14.0%	14.0%	13.0%	12.0%	
Gross profit 2	1.4	1.6	2.0	2.3	3.4	4.6	6.1	7.8	31.6%
Gross margin	9.3%	9.8%	10.8%	11.8%	14.8%	17.8%	20.8%	23.8%	
SG&A	-0.8	-0.9	-1.0	-1.1	-1.2	-1.3	-1.5	-1.7	
as % of sales	-5.4%	-5.4%	-5.4%	-5.4%	-5.1%	-5.1%	-5.1%	-5.1%	
EBITDA	0.6	0.7	1.0	1.3	2.2	3.3	4.6	6.1	43.8%
EBITDA margin 3	3.9%	4.4%	5.4%	6.4%	9.7%	12.7%	15.7%	18.7%	

** - for period 2022-2027*

In millions of USD	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	CAGR*
NOPLAT	0.2	0.3	0.4	0.6	1.2	1.9	2.8	3.9	54.5%
(+) Depreciation	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.7	12.4%
(+) Δ NWCR 4	0.7	-0.3	-0.3	-0.1	-0.2	-0.2	-0.2	-0.1	-22.1%
(+) Maint. CAPEX	-0.3	-0.3	-0.4	-0.4	-0.5	-0.5	-0.6	-0.7	12.4%
Recurrent FCF	0.9	-0.0	0.1	0.5	1.0	1.7	2.7	3.8	91.7%
(+) Exp. CAPEX	—	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.4	18.4%
Unlevered FCF 5	0.9	-0.2	-0.0	0.4	0.7	1.4	2.3	3.4	N/A

	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
CCC 6	65	65	65	61	57	53	49	45
Asset turnover	2.22x	2.22x	2.23x	2.45x	2.74x	3.09x	3.51x	4.05x
ROE 7	31.4%	15.8%	19.6%	11.1%	18.1%	22.3%	24.4%	25.0%
ROIC	8.6%	4.9%	7.3%	10.1%	20.2%	29.5%	39.8%	51.3%
RONIC	3.0%	18.9%	34.3%	40.8%	235.2%	141.9%	163.6%	209.7%



1
- **Sales will grow at a CAGR of 12.4% from 2022 to 2027**, driven by the rising demand for processed avocado products in Europe and by Syros's ability to regularly improve and broaden its offering;
- **2024's higher y-o-y growth is explained by the acquisition**, which will improve Syros's capacity to develop and expand its business.

2
- Gross profit is also expected to improve, **evidencing a CAGR of 31.6%.** This translates into higher revenues and lower costs, **driven by cost efficiencies resultant from operational synergies after consolidation.**

3
- **EBITDA margin is expected to grow from 5.4% in 2022 to 18.7% in 2027** motivated by revenue growth and operating efficiencies since SG&A improvements are not significant.

4
- **NWCR is forecasted to decrease over the investment period as a result of an improved CCC.** Although APP decreases, ensuring good relationships with growers and quality of products, ACP improve significantly as a result of a higher bargaining power and efficiency in inventory management as a result of consolidation.

5
- **FCF increases over eight times from 2023 to 2027, evidencing the firm's strong cash flow generation.**

6
- CCC is expected to improve, refining the company's ability to face its eventual interest obligations. The worsening APP to favor relationships with growers is offset by the improvement in the ACP.

7
- Asset turnover, ROE and ROIC also rise over time after the acquisition, indicating an adequate use of the firm's assets to generate revenues and proper remuneration for shareholders and overall capital invested in the firm. RONIC is also expected to increase over the forecasted period. The high value in 2024 is explained by a higher variation in NOPLAT as compared to the IC variation of the previous period.

I. Value Creation Strategy and Business Plan

II. Private Equity in the Fresh Produce Industry

III. Reference List

An increasing amount of funds has been directed to the fresh produce industry as a result of its countercyclical nature, the shift of consumers towards healthier lifestyles and the high levels of dry powder existent in the private equity industry

Overview

Over time, the food and agricultural industry has been catching the interest of the financial sector: in 2014 there were 197 more investment funds specialized in this area than in 2005. More specifically, private equity activity in the fresh produce industry has recorded unprecedent levels in the last 3 to 5 years, with several investments being made by well-know players in the field: i) Apollo Group acquired Smart&Final discount grocery stores and 32 French supermarkets from Casino Group; ii) Blue Road Capital purchased B&W Quality Growers, a watercress and leafy greens supplier, from Boyne Capital; iii) Butterfly Equity acquired Bolthouse Farms from Campbell Soup Company. The current activity level is expected to be maintained for 2 to 3 years before decelerating.

Activity spams across the value chain, including growers, processors and wholesalers, and commodity segments, such as apples, grapes and potatoes. Controlled-environmental agriculture also shows potential with $2 billion being directed to it.

This growth has been motivated by the fact that the fresh produce was perceived as an unexplored, countercyclical industry after the financial crisis, generating diversification benefits when added to the investment portfolio, and the fact that there was a significant amount of dry powder waiting to be allocated. There was also a strong demand from consumers for healthy and nutritious food items. Furthermore, intense competition, high costs, detrimental weather patterns and aging produce business owners also drove the interest of the seller side in entering M&A deals.

Key trends

When in the pipeline building phase, less appealing targets in this industry consist of companies that rely heavily on a single big retailer or foodservice customer, a small supplier base and significant investments in capital expenditures, which affect their cash flows and valuation significantly. Moreover, investment in farmland is not usual as it implies long holding periods and modeling unfavorable weather conditions. Nevertheless, there are private equity firms that understand the challenges the industry poses and direct their efforts into acquiring firms with capable management teams in place in order to jointly develop strategies to grow the business, improve EBITDA margins, diversify income and supply base and make add-on acquisitions, instead of focusing on financial engineering to derive their returns.

When it comes to the capital invested, it is allocated not only to the expansion of the business, but also to improvements in technology intended to make the company more efficient and effective by tackling issues such as water and labor availability. This trend is expected to shape the future of the industry.

Sources: Prodouce blue book; Fooddive; SDR Ventures; Food processing; The packer

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